



## **Central Bank of Lesotho**

### **STATEMENT OF THE MONETARY POLICY COMMITTEE**

**May 24, 2022**

- 1.** The Central Bank of Lesotho (CBL) Monetary Policy Committee (MPC) held its 95<sup>th</sup> meeting on May 24, 2022. During the meeting, the Committee deliberated on international, regional and domestic economic and financial markets developments.
- 2.** Since the last meeting, global economic prospects, as assessed by the International Monetary Fund (IMF) in April 2022, have worsened. This was largely on account of the on-going war between Russia and Ukraine. The IMF expects the global economy to grow by 3.5 per cent in 2022, a downward revision from the 4.4 per cent growth forecasted in January 2022.
- 3.** Economic growth in different regions was generally mixed in the first quarter of 2022, with growth more robust in most advanced economies, but slower for emerging market economies. Growth in some advanced economies was supported by fiscal stimuli coupled with fading negative effects of the latest COVID-19 variants. Growth in emerging market economies benefitted from improved public investment, while consumer demand remained subdued amid rising inflation.
- 4.** The unemployment rate improved in most countries in the first quarter of 2022, reflective of growth in wages, especially in the US, as well as, the further relaxation of COVID-19 related restrictions. In response to rising inflationary pressures, many central banks have begun increasing their policy rates, while others kept them unchanged on account of growth concerns.

5. In the global financial markets, short-term yields increased in both advanced and emerging market economies. Long-term yields in advanced economies fell due to rising inflation and the expected continuation of policy rate hikes amid growth uncertainties. On the contrary, long-term yields in some emerging market economies grew due to capital inflows following the war in Ukraine. During the review period, foreigners were net buyers of South African equity and net sellers of bonds. Given the on-going developments, the rand is expected to remain resilient at its current levels.
6. The domestic economic activity slowed down during the first quarter of 2022. Economic activity, as measured by the change in the Quarterly Indicator of Economic Activity (QIEA), slowed to 1.8 per cent from 3.9 per cent between December 2021 and March 2022. Much of the growth in economic activity was underpinned by a rise in domestic demand during the review period.
7. Regarding the domestic labour market conditions, there was slight rise in government employment in March 2022, whereas the number of migrant mineworkers continued to decline during the same period. Inflationary pressures remained heightened in April 2022. The domestic inflation rate, as measured by the year-on-year percentage change in the consumer price index (CPI), rose slightly from 7.2 per cent to 7.3 per cent between March and April 2022. The key drivers were food and non-alcoholic beverages, energy and transport. Food prices are anticipated to escalate further due expected low domestic harvest following excessive rainfall.
8. The broad measure of money supply (M2) fell by 5.1 per cent between the first quarter of 2022 and the last quarter of 2021. Private sector credit growth remained muted during the quarter ending March 2022 as it recorded a 0.02 per cent rise. The moderate growth in private sector credit was at the back of a 0.1 per cent growth in credit extended to households while business enterprises credit declined by 0.2 per cent.
9. In relation to the other key economic indicators of the domestic economy, the current account deficit improved from a deficit of 5.5 per cent of GDP in the last quarter of 2021 to a deficit of 1.0 per cent of GDP in March 2022. The improvement in the current account was due to higher surpluses in both the primary and secondary income accounts. In April 2022, government operations were estimated to have registered a fiscal surplus equivalent to 5.1 per cent of GDP. The stock of

public debt was estimated at 50.1 per cent of GDP in April 2022, compared to 50.7 per cent of GDP in March 2022.

10. In summary, while the global macroeconomic environment somewhat improved during the review period, the vulnerabilities remain. Global financial markets remain mired in uncertainty. The domestic economy registered a moderate growth in the first quarter of 2022 compared to a relatively higher growth in the preceding quarter. In line with the rest of the world, domestic inflationary pressures remain elevated.
11. Having considered the Net International Reserve (NIR) developments and outlook, regional inflation and interest rate outlook, domestic economic conditions and the global economic outlook, the MPC decided to:
  - i. Revise downwards the current NIR target floor of US\$820 million to US\$810 million. At this level, the NIR target will continue to support broader macroeconomic stability and maintain the peg between the loti and the South African rand.
  - ii. Increase the CBL Rate from 4.25 per cent per annum to 4.75 per cent per annum. The rate, set at this level, will ensure that the domestic cost of funds remains aligned with the rest of the region.
12. The Committee will continue to monitor the global developments and their likely impact on domestic macroeconomic conditions, particularly the net international reserves (NIR), and take appropriate policy action.

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